THE JOURNAL

OF

POLITICAL ECONOMY

VOLUME 22 *February 1914* NUMBER 2

THE TARIFF OF 1913. II

Granting that the tariff of 1913 represents, as has already been shown in the preceding discussion, a material reduction in the level of rates existing for the past half-century, and conceding further that this reduction has been made in pursuance of a political pledge, which was followed by a popular mandate approving the promise in general form, we must still meet the question whether or not the reductions effected have been of a kind and character suited to the needs of the industrial situation. Practically every observer of legislation and business, whether a believer in free trade or in protection as a theory, would admit that, when once a definite position had been taken on the tariff, and when once economic conditions had become adjusted thereto, it was neither necessary nor wise to break so sharply with the past as to damage industry, if equally good ultimate results might be effected without serious suffering by somewhat postponing final action or by taking the steps toward the final goal gradually and conservatively. It is not enough, therefore, in judging a tariff act to show that it has brought about a reduction in rates, even if it be admitted that such a reduction was the primary object held in view. Neither is it sufficient to show that the reduction has been evenly applied or that it has been honestly and sincerely planned and carried out. The question of efficiency will remain, and it will always be fair to inquire whether a given change in tariff legislation has been

carefully and prudently worked out, in such a way as to get the maximum of beneficial rate reduction with the minimum of business disturbance. These questions may now be considered.

I

Perhaps the most general and fundamental alteration made in the course of the tariff revision of 1913 is seen in the use of ad valorem duties in place of the familiar specific or combined specific and ad valorem duties whose use has been characteristic of the legislation of the past few years. It was a fundamental proposition with the Republican legislators who framed the tariff acts of 1897 and 1909 that ad valorem rates were inequitable in the vast majority of cases, because as prices declined the amount of tariff levied also declined, and declined, therefore, at a moment when the assumed need for protection was greatest. For example, a commodity selling at $1.50 per unit subject to a tariff of 10 per cent would pay 15 cents per unit. A reduction of one-third in the foreign price would make the article sell at $1.00, while the tariff would simultaneously drop to 10 cents per unit. Such a state of things was counter to the theory of protection, in that, as foreign prices fell, the competitive power of foreign owners and manufacturers was increased while as foreign prices rose this competitive power was supposed to be curtailed, a stable level of domestic prices being assumed. Hence arose the use of specific duties, levied at a fixed rate per unit of weight in order that changes in price might not be accompanied by corresponding cuts in protection. In the tariff of 1909 are found several main systems of levying duties which may be enumerated as follows:

1. Simple ad valorem duties, levied at a fixed percentage of valuation.

2. Simple specific duties, levied at a fixed charge per unit of weight.

3. Combined specific and ad valorem duties, levied at a fixed charge per unit of weight, plus an ad valorem charge based on value.

4. Composite specific and ad valorem duties in which the specific rate charged per unit of weight or size varied according

to different grades of value. Thus cloth might pay, say, 50 cents per yard when valued at not more than $2.00, and $1.00 per yard when valued at $2.00 to $4.00 per yard. The object of these duties was to provide a different grade of protection for the different grades of product according to the supposed industrial needs of manufacturers.

Of these classes of duties, the plain ad valorem rates, as just seen, were least popular with the tariff-makers, while the other three classes were employed according to political necessities and to what their users probably supposed to be economic conditions. The effect of the plain specific duties was sufficiently manifest and their application could be well justified in certain classes of cases, among them the following:

a) Cases where the value of goods was practically not capable of ascertainment by any inexpensive or available process.

b) Cases where the unpacking of the goods in order to get samples for purposes of valuation would result in great damage or loss, not offset by any advantage resulting from the use of ad valorem.

c) Cases where it was desired to obtain a steady, easily computable revenue from a specified source, based upon a commodity whose importations and exportations varied but little.

As for the combined specific and ad valorem duties, there was probably a measure of justification for their use in certain instances. Still more rarely the composite duties may have served a useful purpose.

It cannot be questioned, however, that one of the greatest abuses of past tariffs has been found in the fact that such tariffs were largely bottomed upon these combined and composite duties. These classes of rates practically could not be traced in their effect on given articles by anyone except an expert of high technical skill, while their use had been allowed to run to such excess as to give rise to "jokers," irregularities, unfairnesses, and special favors, many of which, doubtless, were not intended by the men who were primarily responsible for them but which, in not a few instances, resulted in the levy of actually prohibitory duties upon certain classes of articles, or in the establishment of rates which were

highly discriminatory as regards individuals, nations, and classes of goods.

That these evils were inherent, more or less, in the system of rates established under the acts of 1897 and 1909, and that they had, moreover, been allowed to run to very great excess in the course of the development of the tariff system, cannot be questioned. As a matter of fact, few save those immediately responsible for the rates thus subject to criticism have ever questioned the criticism. The evil was great, perhaps fundamental, and tariff revisionists were correct in feeling that it must be remedied. The method of remedying it applied in the new measure was, in brief, that of eliminating the combined and composite duties, but few examples of either class being found in the tariff of 1913. In far the greater number of cases under the new law, the method of levy employed is that of "straight" specific or "straight" ad valorem collection; and, as between these last two methods, the predominating plan adopted has been that of the plain ad valorem duty. A modification of the simple ad valorem rate, employed in the textile schedules, notably in that dealing with cotton, has been to change the ad valorem rate according to the degree of complexity of the manufacture, but even such a deviation from the use of simple ad valorem duties has not been widely resorted to. The use of specific duties, perhaps best illustrated in the chemical schedule, has been adopted chiefly in those cases where such duties could be levied to much greater advantage from the revenue standpoint than could the ad valorem duties. The duty on chloroform may be taken as an example. That article cannot be tested for value without a rather elaborate chemical analysis, and, such being the case, the importations of the drug were likely to be confined almost entirely to the very highest and most concentrated grades, if an ad valorem rate were to be applied; these grades would, of course, have been declared for taxation at far lower valuations than they should have borne, such valuations corresponding to the true values of the lower grades of the article which could only with difficulty be distinguished from the more expensive. It was, therefore, probably right to relieve chloroform of ad valorem treatment, and to impose on it a specific duty corresponding with the volume of the drug

imported. In the main, however, it was early decided that the ad valorem duty based upon careful customs examination, with valuation properly safeguarded, should be the prevailing type of duty throughout the tariff, and this determination was adhered to even under some conditions which, in the judgment of well-qualified men, might reasonably have raised doubts of its validity. It is probable that in future years it will be found that one of the most serious problems offered in the satisfactory application of the law of 1913 has been the commercial developments connected with the use of ad valorem duties; and it would seem that one of the points at which severe criticism will be directed against the act by those hostile to it will be the application of such rates. The question is one that can be passed upon more satisfactorily in connection with the several schedules, as their provisions are subjected to analysis. In general, however, it must be conceded that the transition from the old to the new system of duties was an immense victory for simplicity and honesty in the application of the law, and that probably no other change so greatly tended to place the new rates upon a comprehensible and straightforward basis as did this. Whether in certain instances the freer use of specific duties might not have been warranted or even demanded may be a fair question, but it is certain that the abolition of the combined and composite rates was in the highest degree praiseworthy.

II

A review of the individual schedules of the tariff of 1913 shows that several distinctly different classes of work were done in the preparation of the new act. In some instances duties were improved through the reclassification of commodities, in others merely through reduction, in still others through an alteration in the kinds of duties levied, and in many instances by transfer of commodities to the free list. Of complete reclassification, the best example is furnished in Schedule A dealing with chemicals, oils, drugs, and paints. The genesis of this schedule has already been considered in a previous article. Probably in no part of the tariff was the reorganization of the old duties so complete as in Schedule A, and probably in none was there so small a net

reduction with so great a concomitant actual relief from oppressive taxation. During the past thirty years, roughly since the adoption of the unsatisfactory tariff of 1882, the chemical schedule has suffered little change. It has been passed on from Congress to Congress, the alterations in its terms being of the slightest, while the most important innovations were found in transfers to the free list or back again, as revenue or political exigency demanded. In consequence, the chemical schedule had become, when the revision of 1913 was undertaken, hopelessly obsolete. Many of the products named in it had long ago been superseded by others, or the designations were susceptible of being stretched to cover many commodities never meant to be included. It was a hopeless jumble of out-of-date terms and inapplicable methods of classification and of levying duties. In the new schedule as now law, we find an enumeration of products made by capable technical chemists and based upon actual practice and usage in the trade. This in itself is an immense advantage from the standpoint of proper distribution of taxation. Very high credit, therefore, must be assigned to the revisers of the tariff for the courage of their convictions which enabled them to discard the out-of-date and practically worthless descriptions of commodities employed in the existing law by which they were confronted, and to substitute the modern terminology, while at the same time altering duties to correspond with the readjusted groupings. Second to this broad reclassification, the most important feature of the revised chemical schedule is its treatment of the free list. Many articles have been transferred to that list, while not a few have been shifted from the free to the dutiable schedules. These changes were made with a distinct purpose in mind. It was desired to readjust the chemical schedule in such a way that, first of all, the obsolete duties should be abolished upon certain heavy products which not only never were, but never would be, imported, under ordinary conditions. Secondly, it was desired to lower the rates on certain widely consumed commodities whose special use practically made them necessities and so established a prima facie case in favor of low duties or none at all. Medicines afford an example of such items. In the same way, it was desired to

bring about a lowering of rates upon articles which had a distinct food value, and which, therefore, were to be regarded as elements in the cost of living. Oils furnish an illustration of this group of items. Conversely, it was desired to raise duties upon all those articles which were imported into the United States subject to patent protection. In the case of many of the more recent chemical products, highly protected by patents at home and abroad, it was recognized that a reduction in duties would not lower prices to the consumer inasmuch as they were already fixed at the maximum revenue-producing point under the economic law of monopoly price. In the case of still others, it was believed that no manufacture was probable in the United States since conditions of production were far superior abroad—either because of the foreigners' possession of chemical secrets, the result of research, or because the products were of such a nature that they were unlikely to be imitated here successfully. Hence in these cases an increase in rates of duty was likewise thought expedient. As a limit to these changes involving advance in tariffs, was set the possible line at which a reflex effect upon prices might be produced. It was understood that many of these articles were in the nature of materials of production, since they were used by domestic manufacturers of textiles and of other products. Therefore, it was believed that there might be a danger in an increase of duty beyond a very easily reached level, inasmuch as such advance in duty and, perhaps, consequently in price, might result in raising the expenses of other producers who were engaged in manufacturing goods upon which the tariff, through reductions made in subsequent schedules, was about to be cut. Hence was developed a disposition to make all such advances in a tentative way and to limit them to what was considered a distinctly reasonable figure. On the whole, it will undoubtedly be the judgment of careful students of the chemical schedule that changes made along the lines already indicated were well warranted, and that technically the schedule was an immense and very welcome advance over the corresponding schedule of the Payne-Aldrich law.

Another of the groups of duties in the act of 1913, closely allied to the chemical rates, to which very special attention will probably

be paid by future students, is found in Schedule B, which deals with glass, earthenware, pottery, and allied products. For years past, there has been an almost constant attempt to secure a reduction of the plate- and window-glass rates of the tariff law, in view of the well-recognized circumstance that these rates were absolutely abnormal and offered a dangerous spur to monopoly. That such was the case experience had repeatedly shown. Combinations in the window-glass trade, the practical existence of a plate-glass trust, wide variations in prices coinciding with activity in the building trades, and other phenomena of a similar sort, pointed to a manipulated market and called loudly for such check as might be afforded by a reduction of rates. The act endeavored to supply such a corrective. Nothing had been attempted by way of preliminary legislation, but when the final revision was begun very careful attention was devoted to plate and window glass and pottery. The outcome, however, was different in the two cases. With reference to plate and window glass, a general cut was made. This cut varied in amount but, as seen in a former article, it amounted on some sections of the plate-glass schedule to as much as one-half of the rates of duty. In respect to pottery and earthenware, moderate cuts were made, as already seen, but in the higher classes of goods already dutiable at rates of 50 per cent or more, it was determined not to make much change. This conclusion was arrived at because of the belief that the articles in question—fine china, vases, and specialties—were luxuries in the best sense of the word and were not, therefore, entitled to share much in the reductions so long as revenue was needed by the government. On the other hand, very vigorous pleas were made by pottery manufacturers for the purpose of showing that their costs were not such as would permit any further stimulus to importations. The pottery schedule is one regarding which it has never been felt that reliable or complete data were available. Apparently there will be fair ground for a suspension of judgment with reference to the action of the committee on that subject until such time as further information concerning the methods and status of the industry are at hand. Investigations designed to develop the facts of the matter are already being prosecuted by the govern-

ment. With respect to plate and window glass the conclusion already reached by students of the situation, as heretofore indicated, has been that the older duties were far too high and that, in consequence, the reduction was urgently called for. That it has not gone too far and that the duties retained are amply sufficient for the adequate protection of domestic interests, in so far as they are entitled to such protection, is evidently the prevailing view among non-partisan members of the trade as well as among careful students of the situation under the tariff.

III

A very special problem, widely different from that presented by the chemical schedule, was offered in the textile sections of the new measure. These probably constituted the portion of the tariff most sharply debated in the past and most directly liable to criticism and objection. The wool schedule has heretofore been described by "stand-pat" advocates of high tariffs as the "citadel of protection"—a hackneyed expression sufficiently indicating, despite its threadbare condition, the attitude of the ultra-high-duty advocates in Congress. As for cottons, while the average level of rates applying to them had never been very high as compared with the woolen rates, the schedule contained many "jokers" and special favors granted in return for handsome campaign contributions or for political "influence," so that revision of the rates inevitably caused discomfort to many carefully safeguarded interests. In clearing the ground for the revision, it was first of all necessary to decide upon the type of duties to be applied, and here, as in the case of the chemical schedule, it was resolved to sweep away without hesitation the old combined and composite rates and to substitute for them in the main a simple and straightforward ad valorem system. It was agreed to apply this ad valorem system uniformly throughout the cotton, woolen, hemp and flax, and silk schedules. Thereby an immense alteration in the whole type and working of the rates of duty was produced, the change being in itself enough to transform the system of collecting the tariff upon textiles. This determination was adhered to throughout the revision, notwithstanding some desperate efforts while the

bill was in the Senate to secure a restoration of specific duties in the silk schedule—an effort finally successful in the upper Chamber but successful there only in vain, inasmuch as it was promptly discarded by the conference committee, which restored the ad valorem system of the House measure.

As for the rates themselves, the most striking and complete reorganization of duties—the one, moreover, by which the tariff revision of 1913 will ultimately be most closely judged—is found in the wool schedule. Raw wool, which the Ways and Means Committee in previous Congresses had left at a 20 per cent ad valorem rate, was made unreservedly free after December 1, 1913, it being concluded by the tariff revisers that only on a basis of free raw wool could real improvement be bottomed. In this particular, the conclusion arrived at was unquestionably correct. Free raw wool had been regarded as a *sine qua non* by every careful writer and thinker on the tariff for many years past, and this point of view had been amply and fully upheld even by the showing made in the biased and partisan report of the Tariff Board dealing with wool and manufactures thereof, published during the administration of President Taft. In that report it had been clearly indicated that the great bulk of the wool of the United States needed no protection whatever, since it was produced as a by-product of the mutton industry; while it was also conclusively shown that the merino wool industry of the Ohio region and of the western ranches was already doomed to extinction, even with practical prohibition of wool imports, owing to peculiar conditions and uneconomic methods, and that it could be saved only through a complete regeneration of the methods of sheep farming. It will undoubtedly be concluded by careful students of the tariff that in no respect was the act of 1913 more nearly sound, and that in none perhaps was it more courageous and straightforward than in its total abolition of the duties upon raw wool—an action long desired by honest manufacturers who saw in the duties on wool not only an insuperable handicap to the domestic producer but also a guaranty that the average consumer would be able to obtain for himself only poor materials, shoddy, and wool substitutes of one kind or another. By removing the duties on raw wool, Congress

at one stroke of the pen did what it could to emancipate the public from its slavery to the fraudulent vagaries of alleged "woolen" manufacturers.

With the disappearance of the duty on wool, moreover, it became at once possible to improve to an enormous degree the rates upon the derived products of wool. No longer was there any excuse for the crafty "compensatory" duties based upon the old fiction that four pounds of raw wool were required to manufacture a pound of cloth and that a corresponding increase in rates must be allowed. With the raw-wool duties removed, the only problem remaining was that of adjusting the ad valorem rates upon derived products to the relative degrees of complexity in manufacture. Tops, the next product beyond the raw wool, were given a duty of $7\frac{1}{2}$ per cent, yarns a duty of 10 per cent, and so on up to the highest grade of cloths, which under the revised schedule as it emerged from conference bore a rate of 35 per cent. It cannot be said that this was "free trade" or anything approximating to it. Nor is it necessary to go into detailed and abstruse figures as to "cost of production" to determine whether the reduction thus made was wise or not. The schedule as it finally emerged from Congress presents but a single simple question to the average man: Was it his wish to maintain in the United States a cloth-making industry so inefficient that it could not produce goods, even when protected to the extent of 35 per cent ad valorem, raw materials being on a free basis? This does not of course touch the question whether or not as a matter of fact every wool manufacturer in this country can sustain himself with only this amount of protection. At the present writing about one-half of the looms in the woolen industry are idle, and while this is not due in all cases to the tariff, either directly or indirectly, it is probable that many such looms are idle either as a result of direct foreign competition or in consequence of fears of their owners as to potential competition and a desire to wait until conditions are more clearly evident. The Tariff Board's report on wool manufacture, if it furnished no other information, was eloquent in its showing of ancient and poor machinery in the woolen industry and in its demonstration of the use of obsolete methods and costly modes of

production, rendered possible only by the exaggerated rates of duty in past years. In the last analysis, therefore, the issue is not whether any factories will or will not be closed under the new régime. Some will either close or be conducted at a much narrower margin of profit than heretofore—so much may be taken for granted. The real question was whether, in order to enable the proprietors of obsolete machinery to continue paying dividends upon their unsatisfactory plants, the consumer of cloth could be expected to pay a duty in excess of 35 per cent ad valorem. That he could not reasonably be expected to do so will be the opinion of many tariff students and, undoubtedly, of the consumer himself. Technically the wool schedule presents the interesting question whether or not the rates levied upon woolen products at their various stages of advancement were properly adjusted to one another. A survey of the rates as finally fixed seems to indicate that the adjustment was as nearly as possible in accordance with the evidence. It did not differ materially from the relative levels of adjustment suggested by the report of the Tariff Board, and the Tariff Board had reported only what was generally known in the trade, and by everyone who chose to inform himself concerning the relative labor and capital involved in the production of tops, yarns, and the various grades of cloth. At one point, however, the woolen schedule deserves and will receive adverse criticism. The old schedule of the Payne law had levied certain rates of duty upon goat hair as well as upon sheep's wool. In the revision it might reasonably have been expected that since one was to be placed upon the free list the other would likewise be. Instead of this uniformity of treatment, however, mohair, the product of the goat, was given a duty of 20 per cent ad valorem with derived products at duties fixed to correspond to this basic rate. This was a concession to the Texas and general southwestern interests totally unwarranted by the facts and justifiable only upon the plea of political necessity. The product of the goat, protected to the extent of 20 per cent more than wool on the ground that it was a "luxury," should have been given no such preference, and the retention of the "mohair schedule" among the woolen duties can afford only occasion for regret to the sincere friends of tariff

reform, while it furnishes a basis for scoffing to those who disbelieved in the sincerity of the reductions attempted or introduced.

On the whole, the judicious student must conclude that the woolen schedule as a total represents a fair and, in the main, well-adjusted statement of duties, not too low for any reasonable purpose of protection, yet sufficiently low to afford enormous relief from the fearful abuses of the old schedule. He will realize that the change thus suddenly made from an atmosphere of almost tropical warmth in which the obsolete and feeble woolen "plant" was enabled to flourish luxuriantly, to the very much tempered atmosphere furnished by a 35 per cent duty, will unquestionably result in the elimination of some establishments not capable of entering the struggle for survival upon equal terms, and will at the same time compel others to adapt themselves to the new environment by introducing better machinery and more effective methods of production.

The cotton schedule, like that relating to wool, was remodeled upon a purely ad valorem basis. In the cotton schedule, however, the problem was very much simpler owing to the fact that the raw material of the industry had never borne a duty, while the higher products of the loom had not been subjected to the excessive protection resulting from compensatory rates levied under the composite system. The schedule, however, had its own problems. It was now desired to introduce a system of levy which would be based upon plain and simple methods, and to that end it was sought to adjust the rates charged upon yarns so as to correspond in general with the rates charged upon cloths made from those yarns, while it was resolved to eliminate from the tariff the methods of "counting threads" which had been used under the Payne law for the purpose of determining the grade of the cloth. In general, the conclusion was arrived at that the cloth duties should observe the same general conditions prescribed for the establishment of rates upon the yarns, and that no distinction should be drawn between cloths made of a different number of threads. Most of the old special-privilege provisions, whereby cloths woven on a jacquard loom, lappets, and mercerized or other goods were given additional protection when they needed none,

were swept completely away. In judging of the cotton schedule it is worth while to take special account of certain pleas filed by manufacturers of cotton goods. Manufacturers very early saw that they would have but a poor case were they to demand the continuance of high rates upon goods which they were already exporting to foreign countries in successful competition with the manufacturers of those countries.

In brief, the history of the schedule had been somewhat as follows: Under the Payne-Aldrich law and its predecessors, rates of duty had been based upon a combined specific and ad valorem system. Goods were assigned to the different grades by an examination of the method of weaving employed in manufacturing them. When this had been done, the actual duties were imposed on an ad valorem basis varying according to the stage of advancement in manufacture. When actual collections took place, it was then necessary to levy the duties upon goods which had previously been passed upon by appraisers working under complex rules which enabled them to exercise large judgment with respect to the class to which they assigned goods for taxation. Inasmuch as such assignments were expected, under a protectionist régime, to be made to high classes, and inasmuch as protectionist manufacturers, for many years supremely dominant at the Treasury Department, exerted their influence in the direction of assignments to the highest possible classification, the net result was to make the goods invariably pay the maximum possible rates of duty. In the administration of the schedule there was constant friction with respect to classifications and constant hardship on account of the continually rising valuations; and, so far as legislation was concerned, there was constant manipulation of the schedule throughout the whole course of a tariff bill, so as to introduce higher classifications through the medium of seemingly innocent phrases in the body of the act. The tariff reformers of 1913 rightly appreciated that much of the evil of the schedule lay not in the high rates of duties, but in the way in which the duties were imposed. In the preliminary measures which had been adopted by Congress, but to no purpose because of presidential vetoes, it had been sought to assess duties upon a new basis in which the

thread or constituent material of which the cloth was made up should bear rates ascending in amount as the fineness of the thread increased, while cloth made of such thread was to pay a rate of duty based upon the tariff on the thread of which it was composed. In a few special classes of cases, such as handkerchiefs and goods made of cotton and rubber, ad valorem rates bearing no relationship to the general scale of duties had been fixed, inasmuch as these special products of labor and capital could not easily be ranked in a definite relationship to the other products enumerated in the series of duties which constituted the bulk of the schedule. As thus developed upon an exceedingly simple basis, with but little reference to the so-called "fancy" cottons, the early bill had been productive of enormous criticism from cotton manufacturers who voiced the familiar predictions of panic, disaster, business depression, and many others of like nature. During the time that the first Underwood cotton tariff bill was under discussion, as has been elsewhere seen, manufacturers worked with great shrewdness to manipulate the rates in such a way as to insure some preservation of the older type of duty. This was of no avail. Mr. Underwood and his colleagues paid no attention whatever to the arguments placed before them by a committee of manufacturers which had been cleverly made up of influential constituents of southern Congressmen. When the actual task of shaping the cotton schedule of the final bill was begun, the attacks by manufacturers were redoubled, although this time in a different form. Manufacturing interests asked for several distinct changes of which the following were the chief:

1. A distinct difference between the rate on cloth and that on the thread of which it was made.

2. Application of special higher rates of duty to fancy cottons of special types such as jacquard goods, lappets, and others of similar description.

3. Marked advance in rates on finer cottons of all classes.

Of these demands that which was probably urged with the greatest persistency and intensity was the demand for a decided increase in the rates on finer goods. Manufacturing interests finally saw that they could not expect to secure recognition for

the extreme claims which they had put forward and they consequently began to call with greater insistence for a relatively reasonable program. In a brief embodying a proposed schedule of duties which was put forward by the moderate party among cotton manufacturers, it was suggested that about $7\frac{1}{2}$ per cent of the total output of American cottons consisted of the finer goods in which competition with foreign countries was said to be more severe and which consequently required greater protection. On this relatively small proportion of the output it was asked that there should be a material advance in the level of the duties, and it was, partly at least, admitted that the remainder of the schedule, which applied to more than 90 per cent of the goods, could take care of itself on the basis proposed by the committee. Even to these demands the House committee paid little heed, and although some adjustments were made in the Senate for the purpose of obtaining a relationship of duties that would be more satisfactory to producers, they were not very serious or severe. The question is thus raised whether the action finally taken was satisfactory and retained sufficient protection, or whether it was open to criticism and if so, how far. Two canons of criticism suggest themselves—apart from the *ex parte* statements of the manufacturers—the report of the Tariff Board with reference to the cotton schedule, rendered in 1912, and the course of trade since the enactment of the law. With reference to the first criterion, it may fairly be said that the proportion of the Board's report which most nearly bore upon the question of rates of duties was its comparison of home and foreign prices for cloths, wholesale, retail, and at jobbing establishments. If these figures as given by the Tariff Board were correct, there was never any necessity for more than a purely nominal rate of duty, 5 or 10 per cent, upon the commoner classes of cotton goods. On the finer products of the loom, there may have been reason to ask a slightly higher tariff, judging from the views of the Board itself. But from any reasonable interpretation of the Tariff Board's analyses of prices it must be inferred that the rates of duty fixed in the House cotton schedule of the tariff were not only sufficient but far more than sufficient to protect home industry against any degree of competi-

tion likely to be experienced. A like conclusion must be drawn from the exceedingly meager data obtained by the Tariff Board with respect to "cost of production" in English mills as compared with American. The other criterion suggested—the course of importations since the enactment of the tariff—must be admitted to be as yet very imperfect, inasmuch as so short a time has elapsed subsequent to the date when the new rates took effect. It is certain at least that no "inrush of goods" has occurred. On the contrary, importations of cottons into the United States have been decidedly less since the tariff was enacted than they were during the corresponding period before its enactment—for what reason no attempt will here be made to say. American labor in the cotton industry has been fully employed at good wages, and cotton manufacturers have in their more liberal moments since the enactment of the law admitted that they could not see any reason to believe that very serious changes had been produced by the legislation. Such is in fact the case. The duties are undoubtedly amply high, tested by almost any standard. That at times of depression abroad when a surplus of goods must be disposed of, or at those times in the domestic market when trade agreements have succeeded in forcing up prices, the Underwood tariff will admit to the United States much larger quantities of foreign cottons than heretofore is probably true. There is nothing in the cotton schedule to warrant its being termed a "free-trade proposal," but on the contrary the duties it levies are fully high enough for all reasonable objects.

We may test the silk schedule as we did the cotton rates by the effect it is producing in altering the volume of importations, or we may test it in its supposed effect upon the employment of labor. No formal official investigation has ever been made of the silk industry by the federal government, so that the data with reference to cost of production—limited as they are—which were put forward for the cotton and woolen schedules by the Tariff Board are not paralleled with reference to silks. Moreover, with regard to silks, it is apparent that no such severe test can in any case be had as with the woolen and cotton rates. There was but little change in the general level of the silk duties, those under the Payne-

Aldrich tariff being equivalent in practice to about 52 per cent while those actually fixed in the new law are equivalent to about 48 per cent. The striking change wrought by the act of 1913 in the tariff law is found in the changing of the rates from a specific to an ad valorem basis. This change was fiercely contested by manufacturers who urged that it would be exceedingly injurious both to them and to the revenue of the Treasury because of the undervaluations and evasions that would almost certainly occur. None such, so far as known, have up to date taken place, but the administration of the measure has proceeded upon very much the same lines as in the past. There has been an increase in the importation of a few classes of goods, such as pongees, which had previously been almost excluded by reason of the discrimination to which they were subjected under the older form of the tariff. But this has not been a characteristic condition. Altogether the silk situation has continued upon lines similar to those prevailing before the adoption of the new act, save for the greater ease and practicability of the ad valorem duties as compared with the specific rates by which they were preceded.

IV

Much of the discussion of the tariff while the bill was in the House, and again while it was in the Senate, centered around its probable effect upon the cost of living and thus was directed to the two schedules which pre-eminently dealt with food-stuffs, the agricultural and the sugar schedules. In both very decided changes have been made. The agricultural schedule as a whole was subjected to two distinct methods of treatment—rates of duty were cut quite generally throughout and at the same time many products were transferred bodily to the free list. In the latter group were animals, meats, and various kinds of grain. The rates on other classes of grain or grain products were sharply reduced, and still other items were more moderately cut. In the latter subclass were California fruits. As for sugar, provision was made for a reduction of 25 per cent of the existing tariff beginning with March, 1914, with ultimate extinction of the duties at the end of three years. It is thus seen that a very wide breach with the past was created in connection

with the agricultural and sugar rates. This was a change fraught with important political as well as economic consequences. The cuts on most items were very substantial and, while stopping short of absolute free trade in all except a few fundamental food commodities, must be regarded as fulfilling the promises of the party in control of the government. The reductions have, however, thus far produced but little effect upon prices. Certain kinds of imported products of a special type have fallen in price; certain others, previously advancing at a rapid rate, have ceased their marked movement upward. New sources of supply have been opened, as is seen by the increase in importations of grain and meat from Argentina and from Canada, of potatoes from Europe, and of fundamental though less necessary items of daily consumption from many other quarters. Sugar, of course, has not yet been affected by the changes; but, when they become operative, there will be little reason to doubt their efficacy. They will unquestionably give to the consumer the bulk of the cut in tariff duties provided for, and ultimately the whole amount of the tariff, when complete free trade supervenes. It may be reasonably questioned whether the ultimate removal of duties on sugar will be as helpful to the consumer as would have been a further cut in the duties on other products, designed to lighten the public's tariff burden by an amount equal to the revenue derived from sugar. It may also fairly be questioned whether the Treasury could, from the fiscal standpoint, obtain an amount of income equal to that which was produced by the sugar tariff as easily as it has been obtained from that source in the past. In fact, the student of tariff controversy will probably reach the conclusion that of the mistakes of judgment committed in framing the tariff of 1913 the entire removal of the rates on sugar probably represents, all things considered, the most serious. In palliation of it, it may be said that the sugar interests had for many years been oppressive and corrupt, that the duties on sugar had been therefore the source of much unmitigated evil, and that the elimination of them was undoubtedly in line with the announced policy of the Democratic party. On the assumption that the income tax, of which special study will be made at a later point, was desired not merely as a means of getting revenue but

of redressing an unfair distribution of taxation, the removal of the sugar duties may be defended. The change can scarcely be sustained upon any other ground.

While there is thus little reason to believe that the changes made in the agricultural schedule will bring about direct reductions in prices of consumable commodities, there is a good deal of reason for supposing that what is equivalent to the same thing—a larger supply and better access to sources of production—will be obtained, and that, in consequence thereof, there will be avoided the advances in price which might otherwise have occurred owing to progressive growth of demand due to increasing population, or to the pushing of the margin of cultivation farther and farther away from the point of profitableness. The heavy imports of food-stuffs from such countries as Argentina, which began almost as soon as the law had passed and which have continued in growing volume up to the present moment, give good evidence of this prospect. In a real sense, therefore, the agricultural schedule is fulfilling the promises of the tariff-makers, inasmuch as it affords opportunity for a broadening of the domestic sources of supply which would have been quite out of the question had tariff rates continued as high as they were under the old adjustment of duties. Precisely how far this benefit may be expected to extend can hardly be stated, partly because enough experience has not yet been had, and partly because comparisons must always be instituted with what, it may be conjectured, would have occurred under the Payne-Aldrich bill and its predecessors.

Along with the duties affecting food-stuffs may be grouped others that to many minds will seem hardly similar or analogous but which resemble them in direct influence upon costs of living—those dealing with the important basic materials of manufacture, the best example of which is perhaps afforded by metals and manufactures thereof. In a former article, the treatment of the iron and steel schedule has been reviewed at some length, and it was there shown that a very considerable reduction (amounting to fully one-third of the old rates) had been effected. As was also seen, this revision of the schedule had placed not a few of the more important and more bulky products upon the free list. It

may fairly be inferred from this fact that the cost of living, in so far as affected by cost of constructing buildings and of manufacturing all other articles dependent upon the use of metals, would have been reduced. Although, as in the case of some of the other schedules, only a small increase in any class of articles imported under the duties of the iron and steel schedule has occurred, it remains true that such importations, or the threat of them, have already been enough to bring about much closer figuring and some price concessions. There is a good deal of ground for believing that these changes could not have been had without the prospect of foreign competition under the new rates. To be perfectly fair, it should be frankly stated that existing depression in the iron and steel trade is by many currently assigned as the basis of the changes in prices, and this is at least approximately true. The fact remains, however, that, as iron and steel experts freely admit, the effect of the tariff will inevitably be seen in the way indicated, and that the current alterations in prices would probably not have been brought about as quickly or as definitely but for the alterations in duties. The fact that an international combination among steel-producers sustains the price of a number of the important basic steel products of course tends to deprive tariff changes of the effects they would otherwise have upon the charge made for such products. While the data made available during the past few years by the Bureau of Corporations show that the steel industry of the United States, when efficiently conducted, is amply able to defend itself against foreign competition even upon a pure free-trade basis, and fully sustain the general action of Congress with regard to this schedule, there are factors and elements in the portion of the measure referred to which are of somewhat questionable accuracy in their adjustment to other parts of the schedule. These, however, are distinctly in the minority. As a whole the iron and steel schedule must be regarded as having been skilfully and successfully revised. The only serious exception to be taken to this general statement is found in the rates on lead, zinc, and some other metals where special interests succeeded in influencing Congress through political considerations to retain a protection that was in no sense necessary. The maintenance

of these duties at what was certainly an unnecessarily high figure, instead of their entire removal or, at all events, their reduction to a rational level, constitutes a sound and even severe criticism upon the schedule in question.

V

There are certain other features of the tariff act of 1913 which call for special consideration apart from the mere detail of the duties themselves. Indeed, it is likely that from some points of view the tariff of 1913 will be considered of greater importance in its method of dealing with these extraneous or incidental matters than in its relation to the dutiable schedules themselves. Chief among such additional features must be placed (1) the income tax section of the bill, (2) the customs administrative sections, and (3) the provisions contained in the bill with reference to foreign trade relations. Of these, incomparably the most important is the income tax, but this is of itself a large independent subject which must be reserved for subsequent treatment in a special article. Attention may, therefore, be confined for the present to the provisions of the tariff in regard to foreign trade relations, and the changes in the customs administrative law. The tariff was, however, of far-reaching significance in a negative way in its effect on foreign relations. Under the Payne-Aldrich law, a so-called maximum schedule, 25 per cent ad valorem higher than the regular rates, had been prescribed for application to the goods of those countries which did not give us favorable tariff treatment. This had proved almost inoperative, and the attempt to enforce it had subjected the administration to the necessity of various undignified means of beating about the bush. Notably in our relations with Canada and France it had been necessary to put our national pride in our pockets, and practically to admit that it was impossible to have our cake and eat it too. In repealing the maximum tariff and in substituting nothing for it the revisers of the tariff act, therefore, took an important forward step. They eliminated the tariff threat which had been characteristic under the Payne law while they in nowise impaired the conditions surrounding our trade relations with foreign countries. There were, however, some mem-

bers of Congress who desired to furnish a means of retaliation in the event that a president should find himself hampered by the hostility of foreign nations in commercial matters. It was therefore proposed in the Senate to insert a list of commodities upon which the President might at his discretion establish higher rates of duty for the purpose of retaliation, thereby penalizing importations from countries which were in the habit of shipping those goods to us, in all cases where such countries did not extend equitable treatment to the products of the United States. This proved unacceptable to representatives of the House and was consequently eliminated in conference committee, but there was retained a clause providing for the negotiation of reciprocity treaties which may yet prove of importance. In the House, however, there had been inserted a clause providing for a rebate of 5 per cent upon all goods imported in American vessels, this being intended to assist in the "rehabilitation of the American merchant marine." The 5 per cent rebate thus established was carefully examined in the Senate committee, and was found to be out of harmony with our commercial treaties (in that we refused foreign nations as good treatment as we accorded to our own ships), wherever a treaty embodying the so-called "most favored nation clause" was in force. In fact such treaties existed with nearly all nations, except France, so that we should have placed ourselves in the position of discriminating against practically every country with which we were doing business. The Senate accordingly eliminated this provision but it was restored in conference committee, qualified by the statement that the rebate should apply only under conditions that did not run counter to our treaty relations with foreign countries. On this basis the rebate provision was as unworkable practically as it was unwise theoretically. Had it been applied uniformly to goods from all countries it would have amounted to a horizontal reduction of 5 per cent in the average level of the tariff. Had it applied to most countries, and been withheld only in the case of a few, it would have constituted an intolerable discrimination against those few. Seeing the impracticability of the whole scheme, the Treasury has almost necessarily suspended its operation, but the effect has of course been to leave behind a large crop

of lawsuits against the government which will now have to be settled through the courts; and which, if decided in favor of the claimants, will inevitably result in millions of dollars of rebates of duties. Meanwhile, the clause in question remains an open issue and a productive source of irritation and annoyance. Too much can hardly be said of the unwisdom shown in incorporating it. But the general improvement in foreign trade conditions under the tariff due to the repeal of the maximum schedule of the Payne-Aldrich law is so great as largely to offset the sound basis for criticism afforded by the introduction of the rebate clause.

As the rebate provision remained almost the only outcome of an ambitious program of retaliation and negotiation, so the final form assigned to the customs administrative act was the outcome of a lengthy discussion of proper procedure in disposing of the question of customs administration. Prior to the date when the Ways and Means Committee reported a bill in the spring of 1913, two commissions had been at work under the direction of Secretary MacVeagh of the Treasury Department, for the purpose of examining into the situation of the customs service. One of these commissions reported on desirable changes in method of administration, the other on desirable innovations in the organization of the service. The Ways and Means Committee added to its bill, in the form of amendments to the existing customs administrative act, many of the suggestions made by these two commissions. In the Senate most of the changes thus made were, as a result of the keen criticism of importers who did not desire to see the administrative act strengthened, stricken out; but, in order that the Senate might not be charged with having unduly yielded, a provision for a commission of investigation to report after a few months of work was inserted. This provision was later rejected during the conference on the bill, and simultaneously a few of the House amendments to the customs administrative act were restored. Among these, one important example is afforded by the clause forbidding brokers and attorneys to charge contingent fees in customs cases, it being believed that such contingent fees were a source of evil. Another example is seen in the establishment of a protest fee, designed to reduce the number of appeals from deci-

sions of the appraising authorities. Both changes were intended to act as a check upon the rapacity of speculative customs brokers and attorneys co-operating with importers of the lower grades to mulct the government of as much revenue as possible through the wide application of over-favorable interpretations of various tariff provisions. At present, both points are still the subject of litigation opened immediately after the passage of the act in the effort to secure a reversal of the action taken by Congress. But however such litigation may turn out, it will undoubtedly be concluded that a service has been rendered to the movement for sound management of the customs laws by inserting the provisions, particularly as it is fair to expect that a hostile decision by the courts will be the occasion for a re-enactment designed to give effect to the manifest wishes of Congress.

Other changes of procedure, some of them of not a little interest and importance, have been included in the remodeling of the customs administrative laws. Without attempting at this point a technical study they may be generally approved, and it may fairly be said that the act as thus revised is a better measure than that which preceded it. It is not, however, an adequate or thorough revision and should not be allowed to remain long on the books in its present form. Experience has shown that the system of administration provided by it is unsatisfactory and that it lacks severity at some points while proving unduly inquisitorial at others. It retains concessions to selfish interests eager to profit by technicalities which enable them to extort money from the Treasury. These concessions have in many instances survived from the former régime when they were, occasionally at least, inserted with the intent to afford loopholes for the recovery of claims. More extensive and more scientific study of the customs administrative act, and a more thorough and courageous revision of it would have been desirable had time and other conditions permitted during the course of the tariff struggle of 1913. The failure thus to reorganize the measure can only defer remedial measures to a future date when they must certainly be undertaken.

The fiscal results of the act of 1913 will undoubtedly be one of the tests by which it will be most directly judged. As a revenue-

earner the tariff has assumed an almost indispensable place in the federal scheme of taxation. Without it, the government could not expect to meet as easily as it now does the tremendous burdens imposed upon it by reason of the extravagance of Congress and the cries of local interests demanding "pork-barrel" appropriations. Predictions as to this income-producing power are necessarily untrustworthy. No one can forecast the exact effect of a change in duties, still less the combined effect of hundreds of such changes. The estimates compiled for the use of Congress are in almost all cases based upon the assumption that the amount of the imports of goods will be the same under the new tariff as under the old. If that assumption should be correct the revision of the duties would be stripped of the wider meaning ordinarily attributed to it. In fact no such assumption can fairly be accepted. Changes in duties, if they amount to anything, will at least tend to stimulate or to retard importations, although none save bigoted protectionists will take the view that they are the primary influence affecting international currents of trade. A few broad generalizations can, however, be made. Assuming a fairly stable, or only moderately increased, volume of importations, the new tariff will doubtless result in a decreased income, this decrease, however, coming in a very large measure from a relatively small number of items. Sugar, for example, when completely free will probably cut nearly $50,000,000 annually from the government receipts, and the transfer of wool to the free list will eliminate about $15,000,000. Besides the prospective loss of the sugar duties and the more immediate loss of those on wool, it may be estimated that the transfers to the free list will cut off $14,000,000 of revenue, while transfers from the free to the dutiable schedules will bring in perhaps $5,000,000, the difference—some $9,000,000—representing a net loss practically certain to be incurred.

This belief is borne out by the incomplete results of the three months since the adoption of the new tariff. The Treasury was at the end of January about $20,000,000 behind, this amount representing, certainly in part, a shortage of revenue at least technically due to the tariff changes. Whether it and subsequent shortages

will be made up by the later returns to be obtained from the income tax is a question still to be settled.

When all has been said, and when every criticism has been registered, the fact will remain that the tariff reduction of 1913 was not only (1) real, but (2) sincere; (3) courageous in striking at intrenched interests which no longer needed protection for any purpose save the safeguarding of profits; (4) sound in essential principle; (5) likely to be effective in preventing undue advances of price; and (6) within the limits of ascertained facts and data with reference to the competitive power of various industries. While conceding all these points, the unbiased observer will admit with equal freedom that the new tariff contains (1) some mistakes of judgment, among them the absolute removal of duties on sugar; (2) some errors of tactics and technique, as seen in the customs administrative act, and the associated provisions to which exception has already been taken; (3) some concessions to local political considerations, as in the case of the retained metal duties and the tariff on goat hair, already referred to; and undoubtedly (4) some extreme applications of the ad valorem principle. Taken all in all, however, the measure is fair, workmanlike, and sound. It constitutes an immense advance over preceding legislation and reflects great credit upon its framers and promoters because of their single-mindedness, honesty, and skilful performance of duty.

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